

**ASA 706**

(October 2009)

**Explanatory Statement**

***ASA 706 Emphasis of Matter  
Paragraphs and Other Matter  
Paragraphs in the  
Independent Auditor's Report***

Issued by the **Auditing and Assurance Standards Board**

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**Australian Government**

**Auditing and Assurance Standards Board**

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**Reasons for Issuing Auditing Standard ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report***

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is as an independent statutory board of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001* (the Act), the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required to have regard to any programme initiated by the International Auditing and Assurance Standards Board (IAASB) for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards. The IAASB has undertaken a programme to redraft, and in some cases, revise, in “clarity” format, the entire suite of ISAs. Accordingly, the AUASB has decided to revise and redraft the Australian Auditing Standards using the equivalent redrafted ISAs.

**Operative Date**

ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* is operative for financial reporting periods commencing on or after 1 January 2010.

**Purpose of Auditing Standard ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report***

The purpose of the Auditing Standard is to establish Requirements and provide Application and Other Explanatory Material regarding the auditor’s responsibility to draw user’s attention to a matter in the financial report that is of such importance that it is fundamental to the user’s understanding of the financial report or to any other matter that is relevant to the user’s

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understanding of the audit, the auditor's responsibilities or the auditor's report.

### **Main Features**

The Auditing Standard:

- (a) defines, and distinguishes between, an "Emphasis of Matter" paragraph and an "Other Matter" paragraph;
- (b) describes the circumstances when an emphasis of matter paragraph is used and the form and content of such paragraphs;
- (c) describes the circumstances when an other matter paragraph is used and the form and content of such paragraphs;
- (d) requires the auditor to communicate with those charged with governance when the auditor expects to include an emphasis of matter paragraph or an other matter paragraph in the auditor's report; and
- (e) identifies other Auditing Standards containing Requirements for Emphasis of Matter paragraphs and Other Matter paragraphs.

### **Preamble and Overall Objectives**

ASA 706 is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied. ASA 706 is to be read also in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

### **Process of making Australian Auditing Standards**

The AUASB's Strategic Direction, *inter alia*, provides that the AUASB develop Australian Auditing Standards that:

- have a clear public interest focus and are of the highest quality;
- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as the underlying standards;

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- conform with the Australian regulatory environment; and
- are capable of enforcement.

In implementing the FRC's Strategic Direction, the AUASB has undertaken a process of revision and redrafting of the Australian Auditing Standards that has:

- updated the form, layout and content of the Australian Auditing Standards;
- addressed the legal enforceability of mandatory obligations;
- maintained clarity of the auditor's obligations;
- incorporated appropriate references to Australian laws and regulations;
- clearly identified, by use of the prefix "Aus", AUASB additions to paragraphs in the Requirements or the Application and Other Explanatory Material; and
- included other amendments as necessary.

### **Consultation Process prior to issuing the Auditing Standard**

The AUASB has consulted publicly as part of its due process in developing the Auditing Standard. Exposure Draft ED 05/09 *Proposed Auditing Standard: Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* (Re-issuance of ASA 701), was issued on 6 March 2009 with a 30 day comment period.

As an integral part of its consultation with the public, the AUASB sought comments on specific questions including:

- the completeness and accuracy of references in the Auditing Standard to relevant laws and regulations;
- the significant costs, if any, and benefits, of compliance with any additional Requirements under the Auditing Standard; and
- whether or not there exist any matters of public interest affecting the issuance of the Auditing Standard.

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Submissions were received by the AUASB and these were considered as part of the development and finalisation of the Auditing Standard.

### **Regulation Impact Statement**

A *Regulation Impact Statement* (RIS) has been prepared in connection with the redrafting of Australian Auditing Standards in Clarity format, including *ASA 706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

The RIS has considered both the expected benefits and expected costs of the introduction of clarified auditing standards, including comments provided by stakeholders during the redrafting process. It concluded that expected benefits to users of audit services, users of audit reports, auditors and the Australian economy in general are, on balance, likely to outweigh expected costs.

### **Main Differences from ASA 701 *Modifications to the Auditor's Report* (April 2006, as amended)**

The main differences between the Auditing Standard and the Auditing Standard that it supersedes, *ASA 701 Modifications to the Auditor's Report* (April 2006, as amended), are:

1. Auditing Standard ASA 706 is written in the 'clarity' format using the equivalent International Standard on Auditing (ISA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*) as the underlying Auditing Standard. Consequently, the format, layout, and paragraph numbering styles are different from the extant Auditing Standard.
2. The extant Auditing Standard contains additional mandatory obligations and guidance paragraphs dealing with matters that affect the auditor's opinion in the auditor's report. These mandatory obligations and guidance are now contained in a new Auditing Standard, *ASA 705 Modifications to the Opinion in the Independent Auditor's Report*.
3. To improve clarity, certain requirements and guidance in the extant Auditing Standard have been re-written, however, the equivalent meanings have been retained.
4. Certain guidance material in the extant Auditing Standard has been elevated to Requirements.

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5. The following Requirements included in the Auditing Standard are in part, or full, additional compared to the extant Auditing Standard:
- (a) If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial report that, in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the financial report, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided the auditor has obtained sufficient appropriate audit evidence that the matter is not materially misstated in the financial report. Such a paragraph shall refer only to information presented or disclosed in the financial report. (Ref: Para. 6)
  - (b) If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial report that, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report and this is not prohibited by law or regulation, the auditor shall do so in a paragraph in the auditor's report, with the heading "Other Matter," or other appropriate heading. The auditor shall include this paragraph immediately after the Opinion paragraph and any Emphasis of Matter paragraph, or elsewhere in the auditor's report if the content of the Other Matter paragraph is relevant to the Other Reporting Responsibilities section. (Ref: Para. 8)
6. The following Requirements in the extant Auditing Standard are included in other Auditing Standards:
- (a) The auditor shall modify the auditor's report by adding a paragraph to highlight a significant uncertainty regarding a going concern problem. (Ref: Extant Para. 9)
  - (b) The auditor shall modify the auditor's report by adding a paragraph if there is a significant uncertainty (other than a significant uncertainty regarding a going concern problem), the resolution of which is dependent upon future events and which may materially affect the financial report. (Ref: Extant Para. 11)
  - (c) When information in a document containing the audited financial report is materially inconsistent with that financial report, the auditor's report shall include an emphasis of

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matter section describing the material inconsistency.  
(Ref: Extant Para. 17)

- (d) When a financial report and the auditor's report thereon have been issued, and a fact is discovered that leads those charged with governance to prepare a revised financial report, the new auditor's report on the revised financial report shall include an emphasis of matter paragraph. That paragraph shall refer to a note to the financial statements that more extensively discusses the reason for the revision of the previously issued financial report, and to the earlier report issued by the auditor. (Ref: Extant Para. 19)

- 7. Application and Other Explanatory Material, linked to the additional Requirements listed at 4. above and including new guidance on distribution and use of the auditor's report relating to a special purpose financial report, is included in the Auditing Standard.